
September 2005

DEFENSE ACQUISITIONS

Actions Needed to Ensure Adequate Funding for Operation and Sustainment of the Ballistic Missile Defense System



Report Documentation Page

Form Approved
OMB No. 0704-0188

Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.

1. REPORT DATE SEP 2005	2. REPORT TYPE	3. DATES COVERED -
4. TITLE AND SUBTITLE Defense Acquisitions. Actions Needed to Ensure Adequate Funding for Operation and Sustainment of the Ballistic Missile Defense System		
5a. CONTRACT NUMBER		
5b. GRANT NUMBER		
5c. PROGRAM ELEMENT NUMBER		
6. AUTHOR(S)		
5d. PROJECT NUMBER		
5e. TASK NUMBER		
5f. WORK UNIT NUMBER		
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) U.S. Government Accountability Office, 441 G Street NW, Washington, DC, 20548		
8. PERFORMING ORGANIZATION REPORT NUMBER		
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)		
10. SPONSOR/MONITOR'S ACRONYM(S)		
11. SPONSOR/MONITOR'S REPORT NUMBER(S)		
12. DISTRIBUTION/AVAILABILITY STATEMENT Approved for public release; distribution unlimited		
13. SUPPLEMENTARY NOTES		
14. ABSTRACT see report		
15. SUBJECT TERMS		
16. SECURITY CLASSIFICATION OF:		
a. REPORT unclassified	b. ABSTRACT unclassified	c. THIS PAGE unclassified
17. LIMITATION OF ABSTRACT		
18. NUMBER OF PAGES 36		
19a. NAME OF RESPONSIBLE PERSON		

Highlights of [GAO-05-817](#), a report to the Subcommittee on Strategic Forces, Committee on Armed Services, House of Representatives

Why GAO Did This Study

In 2002, the Department of Defense (DOD) implemented a new acquisition model to develop a Ballistic Missile Defense System (BMDS) that included all major missile defense acquisitions, some of which were being developed by the military services. The model called for the management and funding responsibility for production, operation, and sustainment of a capability to be transferred to a military service when a BMDS element or major component is technically mature and plans for production are well developed.

The Missile Defense Agency (MDA) was given responsibility for developing the BMDS and recommending the transfer of management and funding responsibilities to the services. In 2004, MDA emplaced an initial missile defense capability, but DOD did not transfer management and funding responsibility for that capability. Because a formal transfer did not occur, GAO was asked to (1) identify DOD's criteria for deciding when a missile defense capability should be transferred to a service and (2) determine how DOD is managing the costs of fielding a BMDS capability.

What GAO Recommends

GAO is making recommendations that will assist in clarifying MDA and military service roles and responsibilities for missile defense assets. DOD agreed to implement these recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-05-817.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Robert E. Levin at (202) 512-4841 or levinr@gao.gov.

September 2005

DEFENSE ACQUISITIONS

Actions Needed to Ensure Adequate Funding for Operation and Sustainment of the Ballistic Missile Defense System

What GAO Found

There is currently uncertainty as to which assets may eventually be transferred to each military service and under what conditions those transfers should occur. This uncertainty makes it difficult for the services to plan to address the requirements of DOD acquisition regulations and realign their budgets to support the missile defense mission. According to MDA and other DOD officials, when transfer criteria were established in 2002, the Department did not fully understand the complexity of the BMDS and how it could affect transfer decisions. For example, it has been difficult to determine whether MDA or a military service will be responsible for managing and funding some assets, such as stand-alone missile defense radars, because these assets are not integrated on service platforms or do not perform core service missions. MDA officials suggested that these components could be operated by either contractors or military personnel and MDA might fund their operation and sustainment. A team that includes representatives from the military services, the combatant commands, MDA, and other DOD offices was established early this year to address transfer issues. However, because MDA and the services have been unable to reach agreement on the transfer of some missile defense assets, a unit under the Joint Chiefs of Staff was tasked in July 2005 with recommending revisions to the existing transfer criteria.

MDA budgeted \$1.5 billion of its fiscal year 2005 research and development funds to acquire interceptors and radars and upgrade various BMDS components. It expects to continue to acquire and upgrade BMDS assets through 2011 and beyond. However, MDA and the services disagree as to who should pay for operating and sustaining the initial defensive capability after fiscal year 2005. Additionally, although DOD has budgeted \$68.5 billion to develop, procure, operate, and sustain a missile defense capability between 2005 and 2011, it has not completely determined whether additional operation and sustainment funds will be needed, and it has not included all known operation and sustainment costs in its budget. Until DOD decides who will fund these costs, the services will likely continue to provide only the funding that they have been directed to provide. As a result, some needs—for which neither MDA nor the services have planned—will go unfunded. Additionally, if the funds budgeted for some purposes, such as logistical support for the BMDS, turn out to be insufficient, DOD will either have to take funds from other programs or spend less on missile defense.

Contents

Letter		1
Results in Brief		2
Background		3
DOD Established Transfer Criteria But Changes Are Being Considered		8
MDA and the Military Services Disagree on Funding Responsibilities		13
Conclusions		21
Recommendations		22
Agency Comments and Our Evaluation		22
Appendix I	Air Force Officials Concerned with Some MDA Funding Plans	24
	Air Force Believes Radar Test Equipment Is Needed	24
Appendix II	MDA and the Air Force Disagree as to Which Should Pay Eareckson Support Costs	26
Appendix III	Comments from the Department of Defense	28
Appendix IV	GAO Contacts and Staff Acknowledgments	31
<hr/>		
Tables		
Table 1: Total Planned Expenditures for Missile Defense, Fiscal Years 2005-2011		14
Table 2: Research, Development, and Test Funds Devoted to Acquiring Missile Defense Capabilities		14
Table 3: Elements or Components MDA Plans to Acquire or Upgrade for Fielding between 2004 and 2011		15
Table 4: The Fiscal Year 2005 Cost of MDA's Support Agreements		20
<hr/>		
Figures		
Figure 1: Examples of Missile Defense Systems for which MDA Became Fully Responsible		4

Abbreviations

BMDS	Ballistic Missile Defense System
DOD	Department of Defense
MDA	Missile Defense Agency

This is a work of the U.S. government and is not subject to copyright protection in the United States. It may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.



**United States Government Accountability Office
Washington, DC 20548**

September 6, 2005

The Honorable Terry Everett
Chairman
The Honorable Silvestre Reyes
Ranking Minority Member
Subcommittee on Strategic Forces
Committee on Armed Services
House of Representatives

In 2002, the Secretary of Defense directed the Department of Defense (DOD) to adopt a new acquisition model for acquiring a missile defense capability.¹ This model, which is intended to more quickly place a capability in the hands of the warfighter, gives the Missile Defense Agency (MDA) responsibility for developing the Ballistic Missile Defense System (BMDS), a system that includes all major missile defense acquisitions, some of which were being developed by the military services. Once capabilities useful to the warfighter are developed, the management and funding responsibility for production, operation, and sustainment of the capability is to be transferred to a military service.²

In 2004, MDA emplaced an initial missile defense capability, but it did not transfer management and funding responsibility for that capability, or any element or major component of that capability, to a military service. Because a formal transfer did not occur,³ you asked that we determine (1) the criteria that DOD is using to decide when a missile defense capability should be transferred to a military service and (2) how DOD is allocating the cost of fielding a BMDS capability in fiscal years 2005 through 2011, if fielding costs have been fully identified, and if all costs expected to be incurred between 2006 and 2011 are included in DOD's budget.

¹Secretary of Defense Memorandum, *Missile Defense Program Direction*, January 2, 2002.

²Sustainment costs include all costs incurred from initial system deployment through the end of system operations, including the costs of operating, maintaining, and supporting a fielded system.

³A formal transfer decision is made when MDA recommends and DOD's Senior Executive Council approves the transfer of acquisition responsibility for an element or major component from MDA to a military service.

To conduct our work, we examined relevant documents, such as directives issued by the Secretary of Defense and the Under Secretary of Defense for Acquisition, Technology and Logistics; installation support and services agreements between MDA and the Army and the Air Force; Integrated Product Team briefing charts and minutes; and fiscal year 2006 budget documents. We also held discussions with the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics; Office of the Under Secretary of Defense for Policy; Office of the Under Secretary of Defense (Comptroller); the Joint Theater Air and Missile Defense Organization; the Missile Defense Agency; and the Departments of the Army, Air Force, and Navy. We conducted our review from October 2004 to August 2005 in accordance with generally accepted government auditing standards.

Results in Brief

DOD is in the process of considering revisions to the criteria that it will use to decide when and under what conditions elements and components will be transferred from MDA to the military services. Criteria established by the Under Secretary of Defense for Acquisition, Technology and Logistics in December 2002 called for a transfer when an element or component was technically mature, plans for production were well developed, and funds had been allocated to carry out the production plans. However, officials across the department now recognize that the transfer criteria are neither complete nor clear given the BMDS's complexity. For example, it has been difficult to determine whether MDA or a military service will be responsible for managing and funding some assets, such as stand-alone missile defense radars, because these assets are not integrated on service platforms or do not perform core service missions. MDA officials suggested that these components could be operated by either contractors or military personnel and MDA might fund their operation and sustainment. Early this year, a team that includes representatives from the Missile Defense Agency, the Office of the Secretary of Defense, the military services, and the U.S. Strategic and Northern Commands was established to develop individual transfer plans for each BMDS element or major component. However, because MDA and the services have been unable to reach agreement on the transfer of some missile defense assets, a unit under the Joint Chiefs of Staff was tasked in July 2005 with recommending revisions to the existing transfer criteria.

In providing direction on the implementation of the 2002 acquisition model, the Secretary of Defense directed the military services to budget the resources to procure and operate the planned force structure for fielding the BMDS. However, MDA and the military services continue to disagree as to which organization should pay for operating and sustaining

the initial missile defense capability, which remains under MDA's management, after fiscal year 2005. Additionally, DOD has not yet determined the full cost of procuring, operating, and sustaining the initial capability from 2006 through 2011, and it has not included all known costs in its budget. While the military services do not object to funding the operation and sustainment costs of elements or major components transferred to them, the military services do not believe that they should pay these costs for developmental assets even though the assets may be available for operational use. It is likely that until DOD decides which organization will fund these costs, the military services will continue to provide only the funding that they were directed to provide in a 2003 Program Decision Memorandum and some needs, for which neither MDA nor the military services have planned, will go unfunded. Additionally, if the funds budgeted for some purposes, such as logistical support for the BMDS, turn out to be insufficient, DOD will either have to take funds from other programs or spend less on missile defense.

We are making recommendations to DOD that will assist in clarifying the roles and responsibilities of MDA and the military services for managing and funding missile defense assets. In commenting on a draft of this report, DOD agreed to implement our recommendations.

Background

In 2001, DOD conducted missile defense reviews to determine how best to fulfill the nation's need to defend the United States, deployed forces, allies, and friends from ballistic missile attacks. The findings of these reviews led the Secretary of Defense to declare the need for a new strategy to acquire and deploy missile defenses and to issue direction in January 2002 to improve the leadership, management, and organization of missile defense activities.

Specifically, the Secretary delegated to MDA the authority to manage all ballistic missile defense systems under development and shifted programs being executed or developed by the military services to MDA. Figure 1 below describes some of the missile defense programs whose execution or development was transferred from the military services into MDA.

Figure 1: Examples of Missile Defense Systems for which MDA Became Fully Responsible

- **National Missile Defense**-a system now known as Ground-based Midcourse Defense that is designed to protect the U.S. homeland by destroying intercontinental ballistic missiles. The program was originally executed by the Army.
- **Terminal High Altitude Area Defense**-a ground-based system designed to intercept short- and medium-range ballistic missiles. The program was formerly executed by the Army.
- **Aegis Ballistic Missile Defense**-a ship-based system designed to intercept short- and medium-range ballistic missiles. The program was formerly executed by the Navy.
- **Airborne Laser**-an air-based system designed to intercept ballistic missiles early in their flight through directed-energy (laser) intercepts. The program transferred into MDA from the Air Force.
- **Space Tracking and Surveillance System**-a constellation of low-orbiting satellites designed to track missiles throughout their entire flight. The program transferred from the Air Force.

Source: GAO.

The Secretary also instructed MDA to develop a single integrated system, to be called the Ballistic Missile Defense System, capable of intercepting enemy missiles launched from all ranges and in all phases of their flight. The systems transferred from or executed by the services and new systems whose development MDA initiates are considered to be elements of the BMDS and are managed by MDA. In 2002, drawing on research and development efforts that were ongoing for years, MDA established the Command, Control, Battle Management, and Communications system as an element to provide connectivity between other BMDS elements and to manage their operation as an integrated, layered missile defense system.

In his direction to MDA and the military services, the Secretary called for a capabilities-based requirements process and an evolutionary development program. In a capabilities-based program, the system developer—MDA—designs a system based on the technology available, rather than designing a system to meet requirements established by those that will use the system. Additionally, in an evolutionary program, a baseline capability is developed that is improved over time. Therefore, the BMDS has no fixed design or final architecture. Each evolution, or block, as MDA calls such increments, is meant to take advantage of advancing technology so that

over time the BMDS is enhanced. MDA's capabilities-based evolutionary approach to development is meant to provide a capability to the users as quickly as possible while also maintaining flexibility. MDA is in the process of developing the first BMDS block, which is known as Block 2004. This block consists of the Ground-Based Midcourse Defense, Aegis Ballistic Missile Defense, Patriot Advanced Capability-3, and Command, Control, Battle Management, and Communications elements, as well as the Forward-Based X-Band Radar.⁴

The Secretary also established a procedure for making developmental assets available for operational use. On the basis of assessments of the BMDS's military utility, progress in development, and a recommendation by the Director, MDA, and the military services, the Secretary, with input from the DOD Senior Executive Council, decides whether assets whose development is ongoing should be fielded.⁵ When such a decision is made, the Secretary directed that the military departments provide forces to support the early fielding and budget resources to procure and operate the planned force structure. In December 2002, the President directed DOD to begin fielding an initial set of missile defense capabilities to meet the near-term ballistic missile threat to our nation. MDA responded by emplacing Block 2004 developmental assets for use against limited attacks. However, the Secretary has not yet activated this capability by placing it on alert.

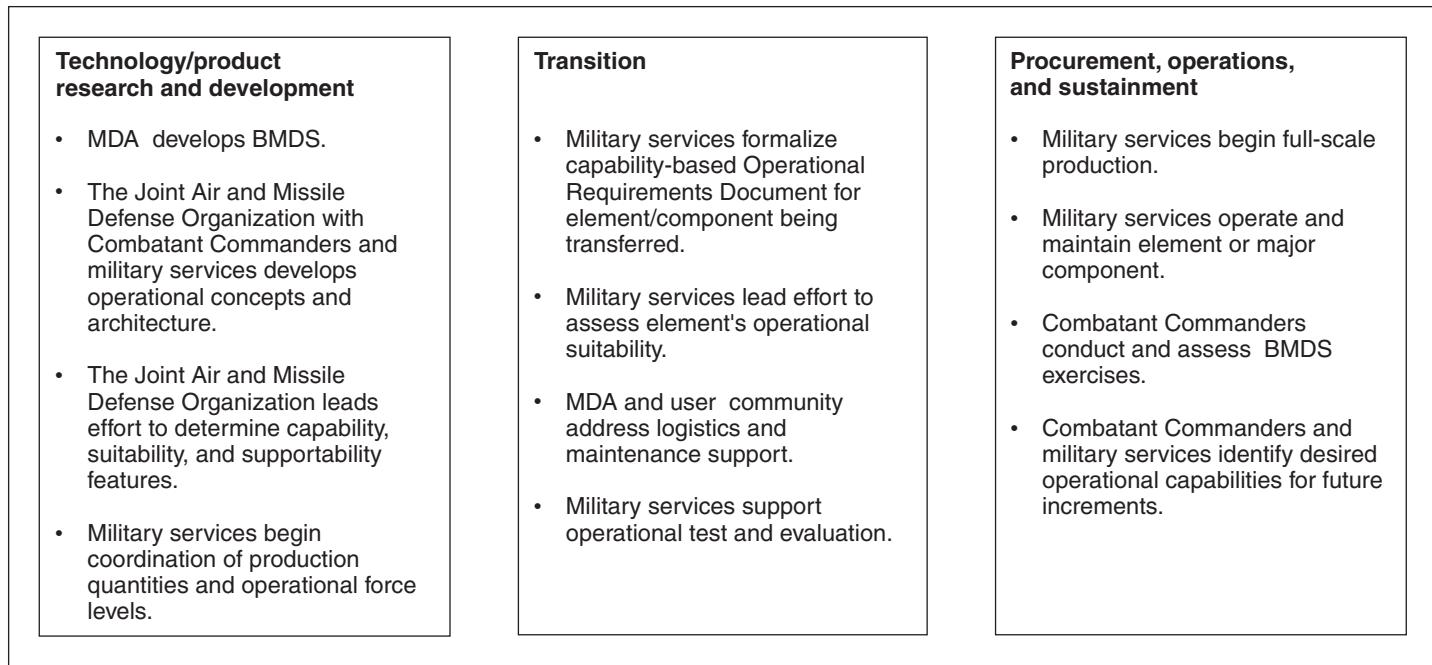
The Secretary's 2002 direction intended that acquisition of missile defense elements and components be completed in three phases. In the first phase, MDA develops ballistic missile defense elements and components using research, development, test, and evaluation funds. When appropriate, the MDA Director recommends and the Senior Executive Council approves the entry of an element or major component into the second phase, known as the transition phase. This phase allows the military services to prepare for the element's or component's transfer. During the third phase, a military service—using procurement, operation and maintenance, and personnel funds—procures, operates, and sustains the element or component. Figure 2 includes some of the activities, such as those carried

⁴Block 2004 began in January 2004 and ends in December 2005.

⁵The Senior Executive Council is a committee established at the direction of the Secretary of Defense to provide policy, planning, and programming guidance; oversee DOD's missile defense activities; and approve BMDS fielding recommendations. The council is chaired by the Deputy Secretary of Defense.

out by the Joint Air and Missile Defense Organization (JTAMDO)⁶ that DOD envisioned taking place during each of the three phases.

Figure 2: Intended Model for Each Acquisition Phase



Source: GAO.

Finally, the Secretary's 2002 direction effectively allowed MDA to defer application of many of the requirements that are generally applied to the development of major systems under DOD's traditional acquisition system regulations.⁷ For example, the requirements for acquisition program baselines and independent cost estimates, generally applicable by statute to major defense acquisition programs and implemented by the DOD regulations, will not be applied until a BMDS element or component is

⁶The Joint Air and Missile Defense Organization, which reports to the Joint Chiefs of Staff, is chartered to plan, coordinate, and oversee Joint Air and Missile Defense requirements, joint operational concepts, and operational architectures.

⁷DOD Directive 5000.1, *The Defense Acquisition System*; DOD Instruction 5000.2, *Operation of the Defense Acquisition System*, May 12, 2003.

transferred to a military service concurrent with Milestone C.⁸ Milestone C, the point at which a decision is made to begin initial production, is the point at which the service is to assume management and funding responsibility for an element or component of the BMDS.

Once elements or components are transferred, the Secretary directed MDA to continue to fund modifications to fielded systems and to manage development activities for new missile defense capabilities.⁹ The Secretary also gave MDA approval authority over any engineering changes that the military services might want to make to transferred BMDS elements. This process, known as configuration control, is meant to ensure that changes do not degrade the interoperability of the BMDS.

MDA has recommended and DOD approved the transfer of one missile defense element to a military service since 2002. DOD transferred the Patriot Advanced Capability-3 program to the Army in 2003. MDA continues to exercise configuration control and provide funding for the development of Patriot Advanced Capability-3 missile defense-related upgrades.¹⁰

⁸Baseline descriptions and independent cost estimates, as well as other management and oversight requirements, are normally first required for Milestone B, the decision to enter system development and demonstration. However, because BMDS elements will not enter DOD's acquisition cycle until Milestone C, these requirements may not be applied to the BMDS until the transition phase that leads to the transfer to a military service. We note that in the absence of the baselines required by DOD's acquisition system regulations, Congress has required MDA to separately establish cost, schedule, and performance baselines for each block of the BMDS being fielded, including full life cycle costs. *Ronald W. Reagan National Defense Authorization Act for Fiscal Year 2005* (P.L 108-375), sec. 234(e).

⁹MDA Business Management officials told us that MDA only expects to fund modifications that are directly attributable to the missile defense mission.

¹⁰MDA is required by Section 232 of the 2005 Defense Authorization Act to maintain configuration control of the Patriot Advanced Capability-3/Medium Extended Air Defense System program as an element of the BMDS.

DOD Established Transfer Criteria But Changes Are Being Considered

In December 2002, the Under Secretary of Defense for Acquisition, Technology and Logistics established criteria for deciding when to transfer acquisition responsibility from MDA to the military services. The specified criteria are (1) testing demonstrates that an element or component is mature, (2) plans and resources are in place to ensure that facilities are available to support production, and (3) funds are programmed in DOD's Future Years Defense Program to carry out production plans.¹¹ After the Under Secretary established these criteria, one BMDS element—the Patriot Advanced Capability-3—was transferred to a military service.

However, officials across DOD now recognize that the transfer criteria are neither complete nor clear and believe that revised criteria are needed for deciding to move an element or component into the transition phase. These officials told us that when the Under Secretary established transfer criteria in 2002, DOD did not fully understand the complexity of the BMDS and how it could affect transfer decisions.

MDA's Director testified earlier this year that MDA will use several models to transfer system elements to the military services and that it may not be appropriate to transfer some elements or components.¹² In such cases, he envisions the services and MDA sharing responsibilities for the assets. Further, he said that MDA will continue to work with the Secretary of Defense, the military services, and the Combatant Commanders to arrange appropriate transfers on a case-by-case basis.

MDA Contemplates a Revised Acquisition Model

There is currently uncertainty as to when and under what conditions DOD will transfer management and funding responsibility for elements and major components from MDA to the military services. The acquisition model directed by the Secretary in 2002 is now viewed by many in DOD as

¹¹DOD's Future Years Defense Program is a massive DOD database and internal accounting system that summarizes forces and resources associated with programs approved by the Secretary of Defense. The program is required by statute to be submitted to Congress each year with the President's budget. It reflects the estimated expenditures and proposed appropriations included in that budget and also covers at least the four succeeding fiscal years.

¹²Lieutenant General Henry A. Obering III, USAF, Director, Missile Defense Agency, presented this information in his statement before the Senate Committee on Appropriations, Subcommittee on Defense, regarding the Fiscal Year 2006 Defense Appropriations for Ballistic Missile Defense, May 11, 2005.

needing modifications to meet the evolving needs of a complex ballistic missile defense system.

Although MDA began to emplace Block 2004 developmental assets for the warfighters' potential use, it is not ready to transfer management responsibility for some of these assets to the military services. According to officials in MDA's Business Management Office, continued management of some system elements and components by MDA may be necessary to fully develop the overall effectiveness of the BMDS. For example, if the missile-tracking capability of the Space Tracking and Surveillance System is going to be added to the BMDS, MDA will need to test it with other BMDS elements to determine how to make all elements work together most effectively. To do this, MDA believes it must have the authority to pull back elements or components that are fielded so that the elements and components can be utilized in developmental efforts.

The MDA officials also indicated that full transfer of elements and components could threaten the priority that the President and DOD have given to missile defense. The officials told us that the military services could subordinate missile defense missions to service missions, funding service programs at the expense of the missile defense program. Service acquisition officials and officials in the Office of the Secretary of Defense agreed that the military services have many competing priorities and that should missile defense programs be transferred to a service, those programs would likely have to compete with service programs for procurement, operations, and sustainment funds.

Officials in MDA's transition office offered examples of how management and funding responsibility of elements and components currently in development might be handled.

- Management responsibility for some elements and components might never be transferred to a military service because these assets are not integrated on service platforms or do not perform core service missions. Examples include the Cobra Dane radar, the Forward-Based X-Band radars, and the Sea-Based X-Band radar. MDA officials suggested that these components could be operated by either contractors or military personnel,¹³ and MDA might fund their operation and sustainment.

¹³We did not discuss with these officials potential legal issues associated with contractor operation of a component of a deployed weapons system.

However, discussions are still ongoing as to whether these components will eventually be transferred to the military services.

- MDA and a military service might be collaboratively involved in the management of other assets, such as the Airborne Laser, the Kinetic Energy Interceptor, the Space Tracking and Surveillance System, and Terminal High Altitude Area Defense because these elements are not yet technically mature and MDA needs to manage their development.¹⁴ The services will remain closely involved to provide feedback on the development process. As the capability of these elements is ready to be demonstrated, MDA will acquire them in limited quantities. For example, MDA plans to acquire two Terminal High Altitude Area Defense fire units, which include 48 missiles. If early tests are successful, MDA will turn the first fire unit over to the Army in 2009. The Army will operate it and provide feedback on its performance. Once any of these assets are available for operational use, MDA believes that the services should accept some responsibility for funding their operation and sustainment costs.

Officials in MDA's transition office told us that management responsibility for assets in this group may eventually be handed over to a military service. The officials said that the transition status of an element is a function of technical maturity, programmatic achievement, time, and relative stakeholder involvement.

- Management and funding responsibility for other systems already have or likely will be transitioned to a military service because they have reached or are nearing technical maturity. As mentioned above, MDA transferred responsibility for the Patriot Advanced Capability-3 to the Army in 2003, and it is likely that in the future MDA will transfer responsibility for Aegis Ballistic Missile Defense to the Navy. Officials in MDA's transition office told us that Aegis Ballistic Missile Defense is reaching technical maturity, as demonstrated by its being fielded operationally on Navy ships. The Navy is almost certain to accept responsibility for the Aegis missile defense capability because it is mounted on the Aegis ships.

¹⁴MDA initiated development of the Kinetic Energy Interceptor element in fiscal year 2003. It is being designed to attack ballistic missiles in the boost phase of their flight, while their motors are thrusting.

Service Officials Emphasize Need for Sufficient Advance Notice of Transfers

Service acquisition officials told us that they need sufficient notice to prepare for a transfer and enough time to ensure that funds are available to produce, operate, and sustain the system. Several things have to be done for a service to operate and maintain a system. For example, personnel have to be assigned and trained, a command structure has to be organized, and facilities may have to be provided for the system and its operators. Also, because transferred elements of the BMDS will enter DOD's acquisition cycle at Milestone C, other activities have to be completed in advance of the milestone to ensure compliance with DOD acquisition regulations. For example, the documentation required by the Chairman of the Joint Chiefs of Staff Capabilities Integration and Development System must be completed and an independent cost estimate must be obtained. Service officials estimated that it takes at least a year and a half to complete all of the tasks needed to meet Milestone C requirements of the DOD acquisition regulations.

Sufficient advance notice is also needed for budgeting purposes. One DOD official said that until responsibilities are established and transition plans are in place, it is difficult for the services to plan their budgets. If transfers take place with little advance notice, DOD will either have to provide the services with additional funds for the production, operation, and sustainment of BMDS elements or direct the services to support the BMDS assets with funds reserved for service missions. In written comments on a draft of this report, DOD said that there is no basis to presume that programs will transfer from MDA to the services with insufficient notice because of the process established by the Secretary and described above.

Work Begun to Develop Transfer Plans and Revise Criteria

Early in 2005, an Integrated Product Team was established to develop transition plans. The team's mission is to

- specify management and funding responsibilities for MDA and the military services;
- work out a strategy for establishing doctrine, planning an organizational structure and its leadership, developing training and materiel, and providing personnel and facilities;
- provide appropriate notification for service budget requirements;
- establish configuration control procedures; and
- ensure mission success.

The team has conducted three meetings to date at the colonel and captain level and two at the general officer level. The inaugural meeting of colonels and captains was held on January 21, 2005. It was attended by almost 80 people who represented MDA, the Office of the Secretary of Defense, the military services, the U.S. Strategic Command, and the U.S. Northern Command. An MDA executive official chairs the team. Two more meetings (one at each level) are planned, along with numerous meetings of support working groups.

Officials in MDA's transition office told us that the team will draw up a broad plan, but it will include annexes tailored for each individual element or component. These annexes will specify the likely date that the element or component under consideration will be transferred; identify how MDA, the affected military service, and the combatant commander will share responsibilities; provide the status of existing contracts; identify funding requirements; and lay out tasks and milestones in the transfer process. MDA transition office officials also told us that the annexes may propose handovers from MDA to the services that are not as formal as the transfers originally envisioned by the Secretary of Defense.

Each individual transition plan will be cosigned by MDA's Director and a military service representative. However, DOD officials noted that the team will likely have disputes that can only be decided by officials in the Office of the Secretary of Defense. DOD and service acquisition officials expressed concern that although the Integrated Product Team members may be able to plan transition details, they likely will not be empowered to make major decisions or resolve major impasses. However, MDA transition office officials told us that the team's objective is to secure agreement of transition and transfer plans at the lowest level possible.

The Deputy for Ballistic Missile Defense, Missile Warfare Division, within the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, said that the current plan is to have the Missile Defense Support Group recommend solutions for impasses to the Under Secretary of Defense for Acquisition, Technology and Logistics.¹⁵ The Under Secretary would then consider the support group's recommendations,

¹⁵The Missile Defense Support Group includes representatives from the Joint Air and Missile Defense Organization; the DOD Comptroller's Office; the Office of the Director, Operational Test and Evaluation; and other units across DOD. Its purpose is to advise MDA's Director on such subjects as policy, operations, testing, acquisition, and resources.

make any needed changes, and forward all transition/transfer plans to the Secretary of Defense for approval. According to the Deputy, the goal is to have DOD approve all transfer plans by December 31, 2005, so that direction is available to the appropriate DOD components as they begin preparing their 2008-2013 budgets.

In July 2005, the Director, Joint Staff, directed the Joint Staff's Deputy for Force Protection to establish a team to recommend revised criteria for making transfer decisions. The team members told us that the impetus for their study was the Integrated Product Team's difficulties in determining when and under what conditions military services should take responsibility for some BMDS components. They said that the military services are not eager to receive components, such as the Sea-Based X-Band Radar, Forward-Based X-Band Radar, and the Cobra Dane Radar, that do not provide a capability that furthers the military services' core missions. The team, which expects to complete its work by December 31, 2005, expects to work with the Integrated Product Team and the Missile Defense Support Group.

MDA and the Military Services Disagree on Funding Responsibilities

In 2002, the Secretary of Defense directed the military services to budget the resources to procure and operate the planned force structure for an early missile defense capability. However, MDA and the military services continue to disagree as to which organization should pay, after 2005, for operating and sustaining developmental assets even though the assets may be available for operational use. Additionally, DOD has not yet determined the full cost of procuring, operating, and sustaining the BMDS from 2006 through 2011, and it has not included all known costs in its budget. Until DOD decides which organization will fund these costs, the services will likely continue to provide only the funding that they are directed to make available, and some needs, which neither MDA nor the services have planned for, will probably go unfunded. Additionally, if the funds budgeted for some purposes, such as logistical support for the BMDS, turn out to be insufficient, DOD will either have to take funds from other programs or spend less on missile defense.

DOD reports that it will spend \$68.5 billion between fiscal years 2005 and 2011 to develop, acquire, and support missile defense capabilities, including an initial capability emplaced in 2004-2005 that can be used in the event of an emergency. MDA has been authorized by statute to use research and development funds for this purpose. Table 1 identifies the

DOD components that have budgeted funds for missile defense activities through 2011.

Table 1: Total Planned Expenditures for Missile Defense, Fiscal Years 2005-2011

In millions of then-year dollars

DOD component	Research, development, test & evaluation	Procurement	Operation and maintenance	Military construction	Military personnel	Total
MDA	\$66,458			\$69		\$66,527
Air Force		\$59	\$174		\$46	\$279
Army			\$475			\$475
Army National Guard			\$941		\$165	\$1,106
Navy			\$144			\$144
Total	\$66,458	\$59	\$1,734	\$69	\$211	\$68,531

Source: DOD Fiscal Year 2006/2007 Budget Estimates, Research, Development, Test, and Evaluation, Defense-Wide, Volume 2, Missile Defense Agency.

MDA Is Using RDT&E Funds to Acquire BMDS Components

In fiscal year 2005, MDA budgeted \$1.5 billion of its research and development funds to acquire interceptors and radars and to upgrade various BMDS elements or components. It expects to continue to acquire and upgrade BMDS assets through 2011. Table 2 shows planned funding by fiscal year.

Table 2: Research, Development, and Test Funds Devoted to Acquiring Missile Defense Capabilities

In billions of then-year dollars

FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	Total
\$1.055	\$1.754	\$2.490	\$2.085	\$1.987	\$1.201	\$10.572

Source: MDA, Fiscal Year 2006 Staffer Day Overview.

A complete list of all assets that MDA is acquiring during Block 2004 and plans to acquire or enhance from 2006-2011 is provided in table 3.

Table 3: Elements or Components MDA Plans to Acquire or Upgrade for Fielding between 2004 and 2011

Element or component being acquired or upgraded for fielding	Quantity to be acquired or upgraded for fielding during Block 2004	Quantity to be acquired or upgraded for fielding from 2006 to 2011
Terminal High Altitude Area Defense Element	0	2 fire units, each with an inventory of 24 missiles
Aegis Ballistic Missile Defense's Standard Missile-3	8	93 missiles
Ground-Based Midcourse Defense Element's Interceptor	14	30 interceptors
Sea-Based X-Band Radar	1	0
Forward-Based X-Band Radar	1	3
Upgrades to Early Warning Radar located at various sites	2	1
Discrimination X-Band Radar	0	3
Upgrade of Aegis Cruiser to allow engagement of ballistic missiles	2	1
Upgrade of Aegis Destroyers to allow engagement of ballistic missiles	0	15

Source: MDA and the military services.

Although the elements or components shown in table 3 will be available to provide an increased missile defense capability, officials within MDA's transition office told us that responsibility for acquiring them will not be transferred to a military service. For example, MDA is acquiring two Terminal High Altitude Area Defense fire units, including 48 missiles. The fire units will be made available to the Army so that soldiers can operate Terminal High Altitude Area Defense to provide feedback on its development and to defend against short- and medium-range ballistic missiles in the event of an emergency. Should the Army, or any other military service that has received a developmental asset, need additional units of an element or larger quantities of some components—for example, should the Army need more Terminal High Altitude Area Defense fire units or missiles—the officials suggested that the military service should be responsible for acquiring them. In addition, MDA would expect the services to budget funds for any common support equipment required for the elements that MDA is acquiring. For example, according to MDA's Terminal High Altitude Area Defense Program Office, it expects the Army to purchase trucks needed to move the two Terminal High Altitude Area Defense fire units' radar, launchers, and generators.

However, no military service has budgeted funds for procurement of elements or components, and only the Air Force has included funds in its

budget for support equipment. An official in the Air Force's Missile Warning and Defense Office within the Office of the Deputy Chief of Staff for Air and Space Operations told us that the Air Force included approximately \$59 million in its fiscal year 2006-2011 budgets to acquire and sustain devices that detect incursions at Vandenberg Air Force Base and to improve test equipment for upgraded early-warning radars located at Beale (California) Air Force Base and at Fylingdales Air Force Station in the United Kingdom. However, the official told us that the cost of acquiring and sustaining the detection devices and the test equipment is expected to exceed planned funding. Further information on Air Force officials' concerns with MDA's plan for funding procurements is discussed in appendix 1.

While the Army has not budgeted funds for support equipment, it has provided equipment from inventory to support the Ground-based Midcourse Defense element that MDA has emplaced at Fort Greely. An official from the Army's Air and Missile Defense/Space Division within the Office of the Assistant Secretary for Acquisition, Logistics and Technology told us that the Army, Army National Guard, and National Guard Bureau provided equipment, such as trucks, radios, and machine guns, from inventory to support the Ground-Based Midcourse Defense element. Additionally, pending Terminal High Altitude Area Defense test results and Senior Executive Council decisions, the official told us that the Army expects to include funds in its fiscal year 2008-2013 budgets for Terminal High Altitude Area Defense common support equipment.

Military Services Fund Costs for Most Personnel Operating BMDS Assets

The military services are currently paying for most of the personnel who operate the missile defense assets. For example, an Army National Guard unit operates Ground-Based Midcourse Defense components located at Fort Greely, and Navy sailors operate the Aegis Ballistic Missile Defense element. The cost to the military services of operating these missile defense elements is not easily discernable because it is intermingled with other operation and sustainment costs. However, Army officials told us that the Army is providing about \$2.4 million for missile defense operations in fiscal year 2005 and expects to incur an additional cost of \$23.3 million for this purpose between fiscal years 2006 and 2011. Navy officials told us that at this time the missile defense mission does not create additional personnel cost because the same sailors who stand watch in the combat information center to support conventional anti-air warfare missions also support the ballistic missile defense mission. Additionally, the Air Force has not identified any additional personnel cost

between 2006 and 2011 to operate upgraded early warning radar for the missile defense mission.

Officials in MDA's transition office told us that in the future MDA may use some of its research and development funds to operate major components that are bought in small quantities. The officials suggested that components such as the Forward-Based X-Band and Sea-Based X-Band radar, which may never be transferred to a military service, could be operated by contractor personnel who, at least through 2011, would be paid from funds set aside for contractor logistics support.

MDA and Military Services Are Presently Sharing Sustainment Costs

In fiscal year 2005, MDA and the military services shared sustainment costs. These costs are incurred for (1) logistics support, which includes the services and materiel needed to support the fielded BMDS; (2) installation support and services costs, which are all of the additional costs incurred by an installation (or base) to support a resident tenant; and (3) other supplies, such as fuel and lubricants.

Sustainment costs are generally one of the largest contributors to a weapon's life-cycle cost because weapon systems are usually in the field for years and require support during this time. Together, operation, maintenance, and disposal costs typically account for about 72 percent of the total cost of a weapon system.¹⁶ However, MDA does not believe that this percentage can be used to estimate the sustainment cost of BMDS elements or components because MDA Program Officials expect fielded assets will be updated and improved more quickly than standard DOD weapon systems. If this proves true, an element or component may be in the field for only a few years before it is replaced with an enhanced configuration. But regardless of the length of time each configuration is in use, DOD will incur sustainment cost because each configuration must be sustained.

Contractors to Provide Logistics Support

In December 2003, DOD's Program Decision Memorandum III directed MDA to assume all fiscal year 2005 and 2006 costs for materials and services needed to support the operation of primary BMDS mission equipment, critical spares, and standard military equipment. MDA is paying prime contractors, who are developing the elements that will be

¹⁶GAO, *Best Practices: Setting Requirements Differently Could Reduce Weapon Systems' Total Ownership Costs*, GAO-03-57 (Washington, D.C.: Feb. 11, 2003).

available for limited use, to provide this support in fiscal year 2005. For example, MDA has contracted with the Boeing Company to provide logistics support for the Ground-Based Midcourse Defense element. Transition office officials told us that they plan to continue this arrangement through 2011.

However, MDA cannot be sure that the funds set aside for logistics support will provide all of the material and services needed. Reliability and maintainability are key factors in the design of affordable and supportable systems. Generally reliability growth is the result of an iterative design, build, test, analyze, and fix process.¹⁷ However, officials in MDA's Business Management Office told us that because they have limited experience with the systems being fielded, they cannot estimate how often parts will break or how much repairs will cost. Additionally, as noted in table 3, MDA plans to add assets to its limited capability during this time frame, and as the quantity of assets increases, the cost of logistics support can be expected to grow.

By 2007, MDA hopes to better understand the cost of logistics support. To gain this understanding, MDA has directed the contractors to collect and report reliability data, including data on the frequency of breakdowns and the cost of repairs.

MDA and the Services Are Jointly Funding Installation Support and Services Costs

In fiscal year 2005, MDA and the military services are sharing the additional cost that the military services are incurring because BMDS elements or components and the personnel who work with them have been placed on military bases. Generally, a tenant on a military base is expected to reimburse its host (the military service whose base the tenant is occupying) for additional base support costs incurred because the tenant is in residence.¹⁸ For example, the tenant is expected to reimburse the host for the additional cost of communications services, lodging, and utilities. However, DOD's Program Decision Memorandum III directed the Army and Air Force to assume some installation costs related to missile defense. The Memorandum directed the Army to provide funds for Fort

¹⁷GAO, *Best Practices: Capturing Design and Manufacturing Knowledge Early Improves Acquisition Outcomes*, GAO-02-701 (Washington, D.C.: July 15, 2002).

¹⁸DOD Instruction 4000.19 provides that a DOD activity requesting support from an interservice host reimburse the host for the incremental direct cost of the services provided.

Greely installation costs and training, and the Air Force to fund additional security forces and infrastructure at Vandenberg Air Force Base.¹⁹

To address the DOD memorandum's directions, the Army is supporting soldiers stationed at Fort Greely to operate deployed missile defense assets. This support includes providing mail services, health and food services, and chaplain services. The Army budgeted \$42 million in fiscal year 2005 for these purposes and estimates that it will need about \$402.7 million more between fiscal years 2006 and 2011.

According to an official in the Air Force Missile Warning and Defense Office, the Air Force included some funds in its fiscal year 2006 budget to procure and install detection devices at Vandenberg Air Force Base as directed by the memorandum. The official said funds were also included in the budgets for the following fiscal years (2007-2011) to sustain the devices. However, the official told us that a new cost estimate shows that it is likely to cost more to procure and install the devices than first estimated. Without the detection devices, Air Force officials estimate that additional security personnel will be needed, but funds for these personnel are not included in the Air Force's budget. Because the Air Force has not added all security forces needed, the security at Vandenberg is not at the level directed by U.S. Strategic Command. Additionally, because the Air Force had no funds set aside in fiscal year 2005 for missile defense active duty security personnel, the Air Force is mostly relying upon Air Reserve volunteers to provide some additional security for missile defense assets located at Vandenberg and Schriever Air Force Bases.²⁰

MDA Pays Most Installation Services and Support Costs in 2005

MDA is paying for other installation services and support costs that the DOD memorandum did not direct the military services to fund. Agreements have been finalized with the Army for installation services and support at Fort Greely and with the Air Force for services and support at Vandenberg and Schriever Air Force Bases and Eareckson Air Station. Table 4 exhibits the costs MDA has agreed to pay at each of the bases in fiscal year 2005.

¹⁹ Program Decision Memorandum III also directed the Navy to provide funds for additional ship operations, training, and contractor support. The Navy addressed the Memorandum's direction by programming funds for maintenance of missile defense software and the ships' fuel when it conducts missile defense missions. It is also conducting training to certify crews for this new mission.

²⁰ Schriever Air Force Base houses a missile defense command and control suite.

Table 4: The Fiscal Year 2005 Cost of MDA's Support Agreements

Dollars in millions		
Installation	Host	Cost to be recovered from MDA
Fort Greely	Army	\$5.53
Vandenberg Air Force Base	Air Force	\$1.89
Eareckson Air Station	Air Force	\$9.80 ^a
Other Air Force facilities	Air Force	\$2.21

Source: MDA.

^aAppendix II provides information on the disagreement between MDA and the Air Force as to which organization should pay support costs at Eareckson Air Station.

MDA and the Services Disagree On Responsibility for Operation and Sustainment Costs

The 2003 Program Decision Memorandum directed the military services, combatant commands, and MDA to continue to refine fiscal years 2006-2011 missile defense operation and support requirements and costs. The memorandum also directed MDA and the military services to budget for those costs, but it did not clarify which costs would be assumed by each organization. An official in MDA's transition office told us that MDA included funds in its 2006-2011 budgets for costs similar to those paid in fiscal year 2005. However, the official pointed out that the Military Service Deputies for Operations are examining whether MDA should pay any operations and sustainment costs, other than contractor logistics costs, after fiscal year 2005. Additionally, MDA proposes that the military services assume contractor logistics costs beginning in 2012.

However, in February 2005, the Deputies for Operations from the three military services involved met to develop a coordinated position on the services' roles and missions for missile defense. The Deputies concluded that the services should not incur operation and support costs for fielded missile defense elements or components until a transition plan for those elements or components is successfully executed.

We talked to acquisition officials in each of the three services involved in operating the BMDS about their services' views on paying future operation and sustainment costs for assets that have not been transferred.

- Navy officials believe that ongoing transition discussions will determine which Aegis Ballistic Missile Defense components are sufficiently mature for the Navy to assume the cost of their operation and sustainment. The officials pointed out that the Navy addressed the Program Decision Memorandum III. However, it is the Navy's position that a transfer decision should precede the Navy's assumption of future operation and

sustainment costs. The Navy expects MDA to maintain the Standard Missile-3 until it is transferred to the Navy and to procure all Aegis Ballistic Missile Defense equipment, including any support equipment, through 2011. Additionally, the officials told us that the Navy does not expect to incur any support costs for the Sea-Based X-Band radar that will support the Ground-Based Midcourse Defense element when it is fielded.

- Air Force officials told us that the Air Force should not incur any operation and sustainment costs after 2005 unless a decision is made to transfer an element or component to the Air Force. An official in the Air Force's Missile Warning and Defense Office said that only MDA, which is developing and deploying the elements and components, can control or plan for operations and sustainment costs. Furthermore, the official said that transition plans can best be made after assets have been deployed, costs are known, military utility is verified, and capabilities have been evaluated. He told us that this approach would provide programming structure and cost transparency.
- The Army is willing to assume some costs associated with supporting the initial missile defense capability. An official in the Army's Air and Missile Defense/Space Division told us that the Army is willing to continue to budget for the cost of operating this capability, supporting soldiers that perform a missile defense mission, and for common support equipment for fielded assets. However, the official said that the Army would not want to assume the maintenance costs of elements or major components until those assets are transferred to the Army. The official said that the Army usually maintains its own equipment and that as long as an asset is in development the Army would not have an inventory of spare parts to make repairs. Neither would it have engineers, or maintenance personnel with an equivalent level of expertise, to make the repairs.

Conclusions

The military services are uncertain as to which missile defense assets may eventually be transferred to them and under what conditions those transfers may occur. This uncertainty makes it difficult for the services to plan the activities that are necessary to apply the requirements of DOD acquisition system regulations and to consider how to best realign their budgets to support the missile defense mission. DOD needs to establish clear and complete transfer criteria to better guide those making the difficult decisions for allocating management and funding responsibilities for missile defense assets.

DOD also needs to clarify whether MDA or the services will be responsible for sustaining missile defense capabilities that have not been transferred

to the services. The Secretary's direction did not clearly spell out whether MDA or the military departments would be responsible for sustaining the early capability, and it is this cost that has become most contentious. If sustainment costs are much higher than expected and the number of assets being made available to the warfighter grows, as MDA expects, the use of research and development dollars to procure and sustain a missile defense capability will begin to affect MDA's primary mission of developing new capabilities and enhancing existing ones. On the other hand, the military services will not want to fund the operation and sustainment of a missile defense capability if its cost cannot be accurately estimated. Nor will they want to fund the capability if they are not given the time to determine how to do so with the least impact on service missions. While the team established by MDA to develop transition plans includes working-level representatives from MDA, the military services, and the combatant commands, it will be difficult to reach full agreement as to who should pay sustainment costs for these assets because the representatives do not have the authority to make binding financial decisions for their organizations. MDA and the services may continue to disagree as to which component will bear sustainment costs for the early capability until DOD directs one or the other to do so. Because the services and MDA will begin to plan their 2008-2013 budgets in 2006, a decision as to who will fund these costs should be made in time for the budget deliberations.

Recommendations

We recommend that the Under Secretary of Defense for Acquisition, Technology and Logistics revise the criteria for deciding when management and funding responsibility for missile defense assets should be transferred from MDA to a military service so that those criteria are clear and complete.

We also recommend that the Secretary of Defense ensure that a decision is made as to which DOD organization will fund the operation and sustainment of missile defense assets that are part of the initial defensive capability but have not been transferred from MDA to a military service and direct that organization, or those organizations, to budget for those costs.

Agency Comments and Our Evaluation

In written comments on a draft of this report (see app. III), DOD agreed that the criteria for making decisions to transfer missile defense assets from MDA to the services must be clear. Our draft report had recommended that the Secretary of Defense direct the Under Secretary of

Defense for Acquisition, Technology, and Logistics to revise the criteria. In its comments, DOD stated that the Secretary of Defense did not need to provide additional direction to the Under Secretary. We accepted this view and, accordingly, revised the recommendation's wording in the final report.

DOD also agreed with the need to settle, as soon as possible, the issue as to which component will fund the operation and sustainment of missile defense assets that are part of the initial defensive capability. DOD said this issue would soon be resolved without the Secretary taking additional action. We continued to address our final report's recommendation to the Secretary because if the services and MDA can not agree about which organization(s) should pay for these costs, the decision may have to be elevated to the Secretary's level.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Armed Services; the Senate Committee on Appropriations, Subcommittee on Defense; the House Committee on Armed Services; and the House Committee on Appropriations, Subcommittee on Defense; the Secretary of Defense; and the Director, Missile Defense Agency. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-4841 or levinr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.



Robert E. Levin
Director, Acquisition and
Sourcing Management

Appendix I: Air Force Officials Concerned with Some MDA Funding Plans

Air Force Space Command officials are concerned that the Missile Defense Agency (MDA) is not providing funds to purchase test equipment for upgraded early-warning radars. According to the officials, without the test equipment, the operation of upgraded early-warning radars could be degraded.

Air Force Believes Radar Test Equipment Is Needed

Air Force Space Command officials told us that a system programming agency is needed to support software and hardware changes to the Beale and Fylingdales early-warning radars once they are upgraded. A system programming agency consists of multiple strings of computers and peripherals that can emulate the unique aspects of the radar's operating system and is used to maintain, modify, and test software and hardware changes prior to those changes being made to the operational radar. The Air Force currently has a system programming agency in place to support hardware and software development for the early-warning radar. However, neither MDA nor the Air Force has included funds in their budgets to establish a system programming agency for the upgraded Beale and Fylingdales radars.

Space Command officials told us that a system programming agency is of particular importance because the upgraded early-warning radar is very dependent on commercial off-the-shelf equipment that often has a short life cycle. If a computer or radar replacement part is needed, there is no certainty that the part available will be compatible with other parts installed in the radar or its operating system. The officials said that if a replacement part operates nanoseconds faster or slower than the old part, the radar could fail or possibly generate false missile reports.

An official in the Air Force's Missile Warning and Defense Office told us that the Air Force included funds in its 2008-2011 budgets to upgrade the system programming agency so that its hardware and software would always be identical to the software and hardware in the operational radar. However, the official said that the Air Force believed that MDA planned to pay for the system programming agency's development cost and that the funds budgeted by the Air Force are not sufficient to both create and sustain an upgraded early-warning radar system programming agency. Space Command officials told us that the system programming agency could cost as much as \$88 million. Without the system programming agency, the officials said changes will be made directly to the operational radar, decreasing its operational availability and increasing operational risks. In a written response to a draft of this report, MDA officials said that

MDA has not agreed to fund a system programming agency for upgraded early-warning radar as the Air Force has requested.

Appendix II: MDA and the Air Force Disagree as to Which Should Pay Eareckson Support Costs

During much of fiscal year 2005, MDA and the Air Force disagreed as to which organization should pay the additional costs being incurred at Eareckson Air Station in support of the missile defense mission. While MDA eventually agreed to pay all fiscal year 2005 costs, no agreement has been reached for subsequent fiscal years. Both MDA and the Air Force predict that costs at Eareckson will again be a contentious issue in fiscal year 2006.

The Air Force maintains that Program Decision Memorandum III did not direct the Air Force to provide security forces and infrastructure for the missile defense mission at Eareckson. Therefore, the Air Force's position is that the additional costs being incurred at Eareckson should be paid by MDA. Officials in the Air Force's Missile Warning and Defense Office told us that Eareckson is populated entirely with contractor personnel who operate and maintain the Cobra Dane radar in its intelligence-gathering role. The Air Force maintains a small diversionary air strip at the base, but it does not have any military personnel located there. The officials said that the Air Force is the administrator for the Eareckson Air Station contract, but the intelligence community reimburses the Air Force for the station's operations costs. The officials said that MDA should pay the costs incurred at Eareckson that are directly attributable to the missile defense mission, just as the intelligence community pays all costs attributable to its mission.

Conversely, MDA maintains that omitting Eareckson from the Program Decision Memorandum was an oversight. However, an official in the Department of Defense's (DOD) Comptroller's Office told us that DOD always intended that MDA pay normal installation support and services cost at Eareckson. DOD recognized that Eareckson is an unusual base because the Air Force does not maintain a presence there. For the first two quarters of fiscal year 2005, MDA paid the additional costs that the Air Force incurred because missile defense contract personnel were located on the base and because the number of security personnel was increased to protect the missile defense mission. However, for the first 7 months of fiscal year 2005, MDA and the Air Force continued to disagree as to which party would pay installation support and services cost for the last two quarters of fiscal year 2005. In May 2005, MDA agreed to assume these costs. MDA transition office officials said that the issue of Eareckson support costs would be raised again in fiscal year 2006.

MDA officials told us that Eareckson installation support and services cost will continue to be an issue because MDA is being asked to pay costs that are normally paid by the installation's host and that MDA is not paying at

other bases with which it has agreements. For example, the host typically provides fire protection for the base and the tenant would only pay the additional cost created by the tenant's residency. However, at Eareckson, MDA is being asked to pay a portion of the cost that the Air Force is incurring to provide a basic fire protection capability. The officials said that they fear the Eareckson installation support and services agreement could establish a precedent that the military services could insist on following at other bases where missile defense assets are located. Should this happen, MDA officials contend that MDA would, in effect, be supplementing the military services' operation and maintenance budget.

Appendix III: Comments from the Department of Defense



OFFICE OF THE UNDER SECRETARY OF DEFENSE
3000 DEFENSE PENTAGON
WASHINGTON, DC 20301-3000

ACQUISITION
TECHNOLOGY
AND LOGISTICS

AUG 18 2005

Mr. Robert E. Levin
Director, Acquisition and Sourcing Management
U. S. Government Accountability Office
441 G. Street, N.W.
Washington, DC 20548

Dear Mr. Levin:

This is the Department of Defense (DoD) response to the GAO draft report, GAO-05-817 "DEFENSE ACQUISITIONS: Actions Needed to Ensure Adequate Funding for Operation and Sustainment of the Ballistic Missile Defense System (BMDS)," dated July 12, 2005 (GAO Code 120379).

The draft report recommends certain actions in the Department that need to occur and recommends the Secretary of Defense take steps to assure that they do occur. The Department partially concurs with the recommendations. The actions that the report identifies are, in fact, in progress now, so the Secretary of Defense does not need to carry out specific recommendations in the report.

The Department appreciates the opportunity to comment on the draft report. The Department provided technical comments separately. For further questions concerning this report, please contact Colonel Dan Hughes, Deputy for Ballistic Missile Defense, Missile Warfare, Defense Systems, 703-695-7329.

Sincerely,

Glenn F. Lamartin
Director
Defense System

Enclosure:
As stated



GAO DRAFT REPORT DATED JULY 12, 2005
GAO-05-817 (GAO CODE 120379)

**"DEFENSE ACQUISITIONS: Actions Needed to Ensure Adequate
Funding for Operations and Sustainment of the Ballistic Missile Defense
System"**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATIONS**

RECOMMENDATION 1: The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology, and Logistics to clarify the criteria that MDA will consider when recommending formal transfers of elements and components to the Services. (p. 25/GAO Draft Report)

DOD RESPONSE: Partially Concur. MDA will continue its work with the Services and the Combatant Commands through the Transition and Transfer IPT to develop the annexes to the BMDS Transition and Transfer Plan. Each of the components of the BMDS will have an annex that will include a detailed description of the agreed-to criteria to be considered when recommending a component for transfer. The Department sees no need for the Secretary to provide additional direction to the USD(AT&L) on the subject.

RECOMMENDATION 2: The GAO recommended that the Secretary of Defense direct the Under Secretary of Defense for Acquisition, Technology, and Logistics to clarify the criteria that the Senior Executive Council will use in making formal transfer decisions. (p. 25/GAO Draft Report)

DOD RESPONSE: Partially Concur. The Department agrees the criteria must be clear. As noted in the draft report (p. 7), the Under Secretary of Defense for Acquisition, Technology and Logistics established the transfer criteria in December 2002. Those criteria will apply in making transfer decisions. In addition, we would require that the transfer plan for each element or component of the BMDS (the appropriate annex noted above) be agreed by both MDA and the appropriate Service or that any issues between them would be resolved. In this circumstance, there is no need for additional action by the Secretary of Defense.

RECOMMENDATION 3: The GAO recommended that the Secretary of Defense ensure that a decision is made by December 2005 as to which DOD component will fund the operation and sustainment of missile defense assets that are part of the initial defensive capability but have not been transferred from MDA to a Service and direct that component, or components, to budget for those costs. (p. 25/GAO Draft Report)

DOD RESPONSE: Partially Concur. The Department agrees this issue must be settled as soon as possible. Activity is currently underway, including the work of the Transition Transfer IPT noted above, to resolve the issue for each element and component of the initial defensive capability. We expect most of the issues will be resolved by December 2005, but some may take until early 2006. In this circumstance, there is no need for additional action by the Secretary of Defense.

Attachment

Appendix IV: GAO Contacts and Staff Acknowledgments

GAO Contacts

Robert E. Levin (202) 512-4841 or levinr@gao.gov

Acknowledgments

In addition to the contact named above, Barbara Haynes, Assistant Director; David Hand; Mary Quinlan; Adam Vodraska, and Karen Sloan made key contributions to this report.

GAO's Mission

The Government Accountability Office, the audit, evaluation and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "Subscribe to Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are \$2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Gloria Jarmon, Managing Director, JarmonG@gao.gov (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, D.C. 20548

Public Affairs

Paul Anderson, Managing Director, AndersonP1@gao.gov (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, D.C. 20548